



99TH GENERAL ASSEMBLY

State of Illinois

2015 and 2016

HB3276

by Rep. Ron Sandack

SYNOPSIS AS INTRODUCED:

40 ILCS 5/2-105.1
40 ILCS 5/2-124 from Ch. 108 1/2, par. 2-124
40 ILCS 5/2-134 from Ch. 108 1/2, par. 2-134
40 ILCS 5/2-167 new

Amends the General Assembly Article of the Illinois Pension Code. Requires the General Assembly Retirement System to establish a self-directed retirement plan. Provides that for persons who become a participant on or after the effective date of the amendatory Act, participation in the System shall be limited to participation in the self-directed retirement plan. Allows a Tier 1 or Tier 2 participant to make an irrevocable election to participate in the self-directed retirement plan instead of the defined benefit plan. Makes changes to the pensionable salary for active participants. Provides that upon a participant's first day of participation in the self-directed retirement plan, the participant becomes vested in his or her contributions to the self-directed retirement plan, the employer's contributions to the self-directed retirement plan, and the investment returns attributable to those contributions credited to his or her account. Provides a new funding formula for State contributions, with a 100% funding goal through 2045 (determined using the entry age normal actuarial cost method) and a 100% funding goal thereafter.

LRB099 02639 RPS 22645 b

FISCAL NOTE ACT
MAY APPLY

PENSION IMPACT
NOTE ACT MAY
APPLY

1 AN ACT concerning public employee benefits.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 5. The Illinois Pension Code is amended by changing
5 Sections 2-105.1, 2-124, and 2-134 and by adding Section 2-167
6 as follows:

7 (40 ILCS 5/2-105.1)

8 Sec. 2-105.1. Tier 1 participant; Tier 2 participant.

9 "Tier 1 participant": A participant who first became a
10 participant before January 1, 2011.

11 In the case of a Tier 1 participant who elects to
12 participate in the self-directed retirement plan under Section
13 2-167, that participant shall be deemed a Tier 1 participant
14 only with respect to service performed or established before
15 the effective date of that election.

16 "Tier 2 participant": A participant who first became a
17 participant on or after January 1, 2011 and before the
18 effective date of this amendatory Act of the 99th General
19 Assembly.

20 In the case of a Tier 2 participant who elects to
21 participate in the self-directed retirement plan under Section
22 2-167, that participant shall be deemed a Tier 2 participant
23 only with respect to service performed or established before

1 the effective date of that election.

2 "Tier 3 participant": A participant who first becomes a
3 participant on or after the effective date of this amendatory
4 Act of the 99th General Assembly; or a Tier 1 or Tier 2
5 participant who elects to participate in the self-directed
6 retirement under Section 2-167 of this Code, but only with
7 respect to service performed or established on or after the
8 effective date of that election.

9 (Source: P.A. 98-599, eff. 6-1-14.)

10 (40 ILCS 5/2-124) (from Ch. 108 1/2, par. 2-124)

11 Sec. 2-124. Contributions by State.

12 (a) The State shall make contributions to the System by
13 appropriations of amounts which, together with the
14 contributions of participants, interest earned on investments,
15 and other income will meet the cost of maintaining and
16 administering the System on a 100% funded basis in accordance
17 with actuarial recommendations ~~by the end of State fiscal year~~
18 ~~2044.~~

19 (b) The Board shall determine the amount of State
20 contributions required for each fiscal year on the basis of the
21 actuarial tables and other assumptions adopted by the Board and
22 the prescribed rate of interest, using the formula in
23 subsection (c).

24 (c) For State fiscal years 2016 through 2045, the minimum
25 contribution to the System to be made by the State for each

1 fiscal year shall be an amount determined by the System to be
2 sufficient to bring the total assets of the System up to 100%
3 of the total actuarial liabilities of the System by the end of
4 State fiscal year 2045. In making these determinations, the
5 required State contribution shall be calculated each year as a
6 level dollar amount over the years remaining to and including
7 fiscal year 2045 and shall be determined under the entry age
8 normal actuarial cost method. ~~For State fiscal years 2015~~
9 ~~through 2044, the minimum contribution to the System to be made~~
10 ~~by the State for each fiscal year shall be an amount determined~~
11 ~~by the System to be equal to the sum of (1) the State's portion~~
12 ~~of the projected normal cost for that fiscal year, plus (2) an~~
13 ~~amount sufficient to bring the total assets of the System up to~~
14 ~~100% of the total actuarial liabilities of the System by the~~
15 ~~end of State fiscal year 2044. In making these determinations,~~
16 ~~the required State contribution shall be calculated each year~~
17 ~~as a level percentage of payroll over the years remaining to~~
18 ~~and including fiscal year 2044 and shall be determined under~~
19 ~~the projected unit cost method for fiscal year 2015 and under~~
20 ~~the entry age normal actuarial cost method for fiscal years~~
21 ~~2016 through 2044.~~

22 For State fiscal years 2012 through 2015 ~~2014~~, the minimum
23 contribution to the System to be made by the State for each
24 fiscal year shall be an amount determined by the System to be
25 sufficient to bring the total assets of the System up to 90% of
26 the total actuarial liabilities of the System by the end of

1 State fiscal year 2045. In making these determinations, the
2 required State contribution shall be calculated each year as a
3 level percentage of payroll over the years remaining to and
4 including fiscal year 2045 and shall be determined under the
5 projected unit credit actuarial cost method.

6 For State fiscal years 1996 through 2005, the State
7 contribution to the System, as a percentage of the applicable
8 employee payroll, shall be increased in equal annual increments
9 so that by State fiscal year 2011, the State is contributing at
10 the rate required under this Section.

11 Notwithstanding any other provision of this Article, the
12 total required State contribution for State fiscal year 2006 is
13 \$4,157,000.

14 Notwithstanding any other provision of this Article, the
15 total required State contribution for State fiscal year 2007 is
16 \$5,220,300.

17 For each of State fiscal years 2008 through 2009, the State
18 contribution to the System, as a percentage of the applicable
19 employee payroll, shall be increased in equal annual increments
20 from the required State contribution for State fiscal year
21 2007, so that by State fiscal year 2011, the State is
22 contributing at the rate otherwise required under this Section.

23 Notwithstanding any other provision of this Article, the
24 total required State contribution for State fiscal year 2010 is
25 \$10,454,000 and shall be made from the proceeds of bonds sold
26 in fiscal year 2010 pursuant to Section 7.2 of the General

1 Obligation Bond Act, less (i) the pro rata share of bond sale
2 expenses determined by the System's share of total bond
3 proceeds, (ii) any amounts received from the General Revenue
4 Fund in fiscal year 2010, and (iii) any reduction in bond
5 proceeds due to the issuance of discounted bonds, if
6 applicable.

7 Notwithstanding any other provision of this Article, the
8 total required State contribution for State fiscal year 2011 is
9 the amount recertified by the System on or before April 1, 2011
10 pursuant to Section 2-134 and shall be made from the proceeds
11 of bonds sold in fiscal year 2011 pursuant to Section 7.2 of
12 the General Obligation Bond Act, less (i) the pro rata share of
13 bond sale expenses determined by the System's share of total
14 bond proceeds, (ii) any amounts received from the General
15 Revenue Fund in fiscal year 2011, and (iii) any reduction in
16 bond proceeds due to the issuance of discounted bonds, if
17 applicable.

18 Beginning in State fiscal year 2046, the minimum State
19 contribution for each fiscal year shall be the amount needed to
20 maintain the total assets of the System at 100% of the total
21 actuarial liabilities of the System. ~~Beginning in State fiscal~~
22 ~~year 2045, the minimum State contribution for each fiscal year~~
23 ~~shall be the amount needed to maintain the total assets of the~~
24 ~~System at 100% of the total actuarial liabilities of the~~
25 ~~System.~~

26 Amounts received by the System pursuant to Section 25 of

1 the Budget Stabilization Act or Section 8.12 of the State
2 Finance Act in any fiscal year do not reduce and do not
3 constitute payment of any portion of the minimum State
4 contribution required under this Article in that fiscal year.
5 Such amounts shall not reduce, and shall not be included in the
6 calculation of, the required State contributions under this
7 Article in any future year until the System has reached a
8 funding ratio of at least 100%. A reference in this Article to
9 the "required State contribution" or any substantially similar
10 term does not include or apply to any amounts payable to the
11 System under Section 25 of the Budget Stabilization Act.

12 Notwithstanding any other provision of this Section, the
13 required State contribution for State fiscal year 2005 and for
14 fiscal year 2008 and each fiscal year thereafter through State
15 fiscal year 2014, as calculated under this Section and
16 certified under Section 2-134, shall not exceed an amount equal
17 to (i) the amount of the required State contribution that would
18 have been calculated under this Section for that fiscal year if
19 the System had not received any payments under subsection (d)
20 of Section 7.2 of the General Obligation Bond Act, minus (ii)
21 the portion of the State's total debt service payments for that
22 fiscal year on the bonds issued in fiscal year 2003 for the
23 purposes of that Section 7.2, as determined and certified by
24 the Comptroller, that is the same as the System's portion of
25 the total moneys distributed under subsection (d) of Section
26 7.2 of the General Obligation Bond Act. In determining this

1 maximum for State fiscal years 2008 through 2010, however, the
2 amount referred to in item (i) shall be increased, as a
3 percentage of the applicable employee payroll, in equal
4 increments calculated from the sum of the required State
5 contribution for State fiscal year 2007 plus the applicable
6 portion of the State's total debt service payments for fiscal
7 year 2007 on the bonds issued in fiscal year 2003 for the
8 purposes of Section 7.2 of the General Obligation Bond Act, so
9 that, by State fiscal year 2011, the State is contributing at
10 the rate otherwise required under this Section.

11 (d) For purposes of determining the required State
12 contribution to the System, the value of the System's assets
13 shall be equal to the actuarial value of the System's assets,
14 which shall be calculated as follows:

15 As of June 30, 2008, the actuarial value of the System's
16 assets shall be equal to the market value of the assets as of
17 that date. In determining the actuarial value of the System's
18 assets for fiscal years after June 30, 2008, any actuarial
19 gains or losses from investment return incurred in a fiscal
20 year shall be recognized in equal annual amounts over the
21 5-year period following that fiscal year.

22 (e) For purposes of determining the required State
23 contribution to the system for a particular year, the actuarial
24 value of assets shall be assumed to earn a rate of return equal
25 to the system's actuarially assumed rate of return.

26 (Source: P.A. 97-813, eff. 7-13-12; 98-599, eff. 6-1-14.)

1 (40 ILCS 5/2-134) (from Ch. 108 1/2, par. 2-134)
2 Sec. 2-134. To certify required State contributions and
3 submit vouchers.

4 (a) The Board shall certify to the Governor on or before
5 December 15 of each year until December 15, 2011 the amount of
6 the required State contribution to the System for the next
7 fiscal year and shall specifically identify the System's
8 projected State normal cost for that fiscal year. The
9 certification shall include a copy of the actuarial
10 recommendations upon which it is based and shall specifically
11 identify the System's projected State normal cost for that
12 fiscal year.

13 On or before November 1 of each year, beginning November 1,
14 2012, the Board shall submit to the State Actuary, the
15 Governor, and the General Assembly a proposed certification of
16 the amount of the required State contribution to the System for
17 the next fiscal year, along with all of the actuarial
18 assumptions, calculations, and data upon which that proposed
19 certification is based. On or before January 1 of each year
20 beginning January 1, 2013, the State Actuary shall issue a
21 preliminary report concerning the proposed certification and
22 identifying, if necessary, recommended changes in actuarial
23 assumptions that the Board must consider before finalizing its
24 certification of the required State contributions. On or before
25 January 15, 2013 and every January 15 thereafter, the Board

1 shall certify to the Governor and the General Assembly the
2 amount of the required State contribution for the next fiscal
3 year. The Board's certification must note any deviations from
4 the State Actuary's recommended changes, the reason or reasons
5 for not following the State Actuary's recommended changes, and
6 the fiscal impact of not following the State Actuary's
7 recommended changes on the required State contribution.

8 On or before May 1, 2004, the Board shall recalculate and
9 recertify to the Governor the amount of the required State
10 contribution to the System for State fiscal year 2005, taking
11 into account the amounts appropriated to and received by the
12 System under subsection (d) of Section 7.2 of the General
13 Obligation Bond Act.

14 On or before July 1, 2005, the Board shall recalculate and
15 recertify to the Governor the amount of the required State
16 contribution to the System for State fiscal year 2006, taking
17 into account the changes in required State contributions made
18 by this amendatory Act of the 94th General Assembly.

19 On or before April 1, 2011, the Board shall recalculate and
20 recertify to the Governor the amount of the required State
21 contribution to the System for State fiscal year 2011, applying
22 the changes made by Public Act 96-889 to the System's assets
23 and liabilities as of June 30, 2009 as though Public Act 96-889
24 was approved on that date.

25 (a-5) For purposes of Section (c-5) of Section 20 of the
26 Budget Stabilization Act, on or before November 1 of each year

1 beginning November 1, 2014, the Board shall determine the
2 amount of the State contribution to the System that would have
3 been required for the next fiscal year if this amendatory Act
4 of the 98th General Assembly had not taken effect, using the
5 best and most recent available data but based on the law in
6 effect on May 31, 2014. The Board shall submit to the State
7 Actuary, the Governor, and the General Assembly a proposed
8 certification, along with the relevant law, actuarial
9 assumptions, calculations, and data upon which that
10 certification is based. On or before January 1, 2015 and every
11 January 1 thereafter, the State Actuary shall issue a
12 preliminary report concerning the proposed certification and
13 identifying, if necessary, recommended changes in actuarial
14 assumptions that the Board must consider before finalizing its
15 certification. On or before January 15, 2015 and every January
16 1 thereafter, the Board shall certify to the Governor and the
17 General Assembly the amount of the State contribution to the
18 System that would have been required for the next fiscal year
19 if this amendatory Act of the 98th General Assembly had not
20 taken effect, using the best and most recent available data but
21 based on the law in effect on May 31, 2014. The Board's
22 certification must note any deviations from the State Actuary's
23 recommended changes, the reason or reasons for not following
24 the State Actuary's recommended changes, and the impact of not
25 following the State Actuary's recommended changes.

26 (a-6) As soon as practical after the effective date of this

1 amendatory Act of the 99th General Assembly, the State Actuary
2 and the Board shall recalculate and recertify to the Governor
3 and the General Assembly the amount of the State contribution
4 to the System for State fiscal year 2016, taking into account
5 the changes in required State contributions made by this
6 amendatory Act of the 99th General Assembly.

7 (b) Beginning in State fiscal year 1996, on or as soon as
8 possible after the 15th day of each month the Board shall
9 submit vouchers for payment of State contributions to the
10 System, in a total monthly amount of one-twelfth of the
11 required annual State contribution certified under subsection
12 (a). From the effective date of this amendatory Act of the 93rd
13 General Assembly through June 30, 2004, the Board shall not
14 submit vouchers for the remainder of fiscal year 2004 in excess
15 of the fiscal year 2004 certified contribution amount
16 determined under this Section after taking into consideration
17 the transfer to the System under subsection (d) of Section
18 6z-61 of the State Finance Act. These vouchers shall be paid by
19 the State Comptroller and Treasurer by warrants drawn on the
20 funds appropriated to the System for that fiscal year. If in
21 any month the amount remaining unexpended from all other
22 appropriations to the System for the applicable fiscal year
23 (including the appropriations to the System under Section 8.12
24 of the State Finance Act and Section 1 of the State Pension
25 Funds Continuing Appropriation Act) is less than the amount
26 lawfully vouchered under this Section, the difference shall be

1 paid from the General Revenue Fund under the continuing
2 appropriation authority provided in Section 1.1 of the State
3 Pension Funds Continuing Appropriation Act.

4 (c) The full amount of any annual appropriation for the
5 System for State fiscal year 1995 shall be transferred and made
6 available to the System at the beginning of that fiscal year at
7 the request of the Board. Any excess funds remaining at the end
8 of any fiscal year from appropriations shall be retained by the
9 System as a general reserve to meet the System's accrued
10 liabilities.

11 (Source: P.A. 97-694, eff. 6-18-12; 98-599, eff. 6-1-14.)

12 (40 ILCS 5/2-167 new)

13 Sec. 2-167. Self-directed retirement plan.

14 (a) For the purposes of this Section:

15 "Active participant" means a participant who is in
16 active service in the System.

17 "Consumer price index-u" means the index published by
18 the Bureau of Labor Statistics of the United States
19 Department of Labor that measures the average change in
20 prices of goods and services purchased by all urban
21 consumers, United States city average, all items, 1982-84 =
22 100.

23 "Defined benefit plan" means the retirement plan
24 available under this Article to Tier 1 or Tier 2
25 participants who have not made the election authorized

1 under this Section.

2 "Employer" means the State.

3 "Pensionable salary" means the amount of salary used by
4 the System to calculate the amount of an individual's
5 retirement annuity.

6 (b) On and after the effective date of this amendatory Act
7 of the 99th General Assembly, a Tier 3 participant's
8 participation in the System shall be limited to participation
9 in the self-directed retirement plan established under
10 subsection (d) of this Section.

11 An active Tier 1 or Tier 2 participant of this System may
12 elect to cease accruing benefits in the defined benefit plan
13 and begin accruing benefits for future service in the
14 self-directed retirement plan established under subsection
15 (d). The election to participate in the self-directed
16 retirement plan is voluntary and irrevocable.

17 For an active Tier 1 or Tier 2 participant who elects to
18 participate in the self-directed retirement plan, all service
19 credit under the System (including service under any
20 participating system if the participant elects to use the
21 reciprocal provisions of Article 20) shall be considered for
22 purposes of vesting in the benefits provided prior to the
23 effective date of this Section, but only service earned and
24 contributions made before that effective date shall be
25 considered in determining the amount of those benefits. In lieu
26 of receiving any such benefits, an active Tier 1 or Tier 2

1 participant who elects to participate in the self-directed
2 retirement plan may elect to have an account balance
3 established in his or her self-directed retirement plan account
4 in an amount equal to the amount of the contribution refund
5 that the participant would be eligible to receive if he or she
6 withdrew from service on the effective date of this Section and
7 elected a refund of contributions, except that this
8 hypothetical refund shall include interest at the effective
9 rate for the respective years. The System shall make these
10 transfers of assets to the self-directed plan as tax-free
11 transfers in accordance with Internal Revenue Service
12 guidelines.

13 (c) The pensionable salary of an active participant shall
14 be equal to the average final monthly salary of the
15 participant. For a participant who first becomes a participant
16 of this System on or after the effective date of this
17 amendatory Act of the 99th General Assembly, the average final
18 monthly salary determined by dividing the total salary of the
19 participant during the 96 consecutive months of service within
20 the last 120 months of service in which the total compensation
21 was the highest by the number of months of service in that
22 period; however, the highest salary for annuity purposes may
23 not exceed \$106,800, except that that amount shall annually
24 thereafter be increased by the lesser of (i) 3% of that amount,
25 including all previous adjustments, or (ii) the annual
26 unadjusted percentage increase (but not less than zero) in the

1 consumer price index-u for the 12 months ending with the
2 September preceding each November 1. The new amount resulting
3 from each annual adjustment shall be determined by the Public
4 Pension Division of the Department of Insurance and made
5 available to the Board by November 1 of each year.

6 (d) As soon as practicable after the effective date of this
7 amendatory Act of the 99th General Assembly, the System shall
8 establish a self-directed retirement plan that allows Tier 3
9 participants the opportunity to accumulate assets for
10 retirement through a combination of employee and employer
11 contributions that may be invested in mutual funds, collective
12 investment funds, or other investment products and used to
13 purchase annuity contracts, either fixed or variable or a
14 combination thereof. The plan must be qualified under the
15 Internal Revenue Code of 1986.

16 At any time after withdrawal from service, a participant in
17 the self-directed plan shall be entitled to a benefit that is
18 based on the account values attributable to his or her
19 participant contributions and the employer contributions, as
20 well as any investment returns attributable to those
21 contributions. Upon a participant's first day of participation
22 in the self-directed retirement plan, the participant becomes
23 vested in his or her contributions to the self-directed
24 retirement plan, the employer's contributions to the
25 self-directed retirement plan, and the investment returns
26 attributable to those contributions credited to his or her

1 account.

2 (e) All persons who begin to participate in this System on
3 or after the effective date of this amendatory Act of the 99th
4 General Assembly and any active Tier 1 or Tier 2 participant
5 who makes the election provided in subsection (b) shall
6 participate in the self-directed retirement plan established
7 under subsection (d) and, in lieu of the contributions
8 otherwise provided for in this Article, shall contribute 8% of
9 salary to the plan. The employer of each of those participants
10 shall contribute 7% of salary to that plan on behalf of the
11 participant.

12 (f) The provisions of this amendatory Act of the 99th
13 General Assembly apply notwithstanding any other law,
14 including Section 1-160 of this Code. If there is a conflict
15 between the provisions of this amendatory Act of the 99th
16 General Assembly and any other law, the provisions of this
17 Section shall control.